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ANNUAL AUDITED REPORT  
FORM X-17A-5  
PART III

FACING PAGE

Information Required of Brokers and Dealers Pursuant to Section 17 of the  
Securities Exchange Act of 1934 and Rule 17a-5 Thereunder

REPORT FOR THE PERIOD BEGINNING 01/01/07 AND ENDING 12/31/07  
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER:

Morgan Joseph & Co. Inc.

OFFICIAL USE ONLY

FIRM ID. NO.

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)

600 Fifth Avenue, 19<sup>th</sup> Floor

(No. and Street)

New York

(City)

New York

(State)

10020-2302

(Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT

Jo-Ku Tang

(212) 218-3717

(Area Code - Telephone Number)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report\*

Eisner LLP

(Name - if individual, state last, first, middle name)

PROCESSED

MAR 24 2008

THOMSON  
FINANCIAL

750 Third Avenue

New York

New York

10017

(Address)

(City)

(State)

(Zip Code)

CHECK ONE:

- Certified Public Accountant
- Public Accountant
- Accountant not in residence in United States or any of its possessions.

FOR OFFICIAL USE ONLY

\*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See Section 240.17a-5(e)(2)

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OATH OR AFFIRMATION

I, Jo-Ku Tang, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm Morgan Joseph & Co. Inc., as of December 31, 2007, are true and correct. I further swear (or affirm) that neither the company nor any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of a customer, except as follows:

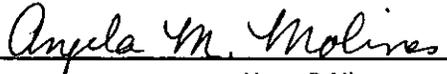
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Signature

Controller

Title



Notary Public

ANGELA M. MOLINAS  
Notary Public, State of New York  
No. 01MO6076727  
Qualified in Westchester County  
Commission Expires July 01, 2010

This report\*\* contains (check all applicable boxes):

- (a) Facing Page.
- (b) Statement of Financial Condition.
- (c) Statement of Income (Loss).
- (d) Statement of Changes in Financial Condition.
- (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietor's Capital.
- (f) Statement of Changes in Liabilities Subordinated to Claims of Creditors.
- (g) Computation of Net Capital.
- (h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3.
- (i) Information Relating to the Possession or Control Requirements Under Rule 15c3-3.
- (j) A Reconciliation, including appropriate explanation, of the Computation of Net Capital Under Rule 15c3-1 and the Computation for Determination of the Reserve Requirements Under Exhibit A of Rule 15c3-3.
- (k) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation.
- (l) An Oath or Affirmation.
- (m) A copy of the SIPC Supplemental Report.
- (n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.

\*\*For conditions of confidential treatment of certain portions of this filing, see section 240.17a-5(e)(3).

**Eisner**

Eisner LLP  
Accountants and Advisors

**MORGAN JOSEPH & CO. INC.**  
**(a wholly owned subsidiary of**  
**Morgan Joseph Holdings Inc.)**

**STATEMENT OF FINANCIAL CONDITION**

**DECEMBER 31, 2007**

# Eisner

Eisner LLP  
Accountants and Advisors

750 Third Avenue  
New York, NY 10017-2703  
Tel 212.949.8700 Fax 212.891.4100  
[www.eisnerllp.com](http://www.eisnerllp.com)

## INDEPENDENT AUDITORS' REPORT

To the Board of Directors of  
Morgan Joseph & Co. Inc.

We have audited the accompanying statement of financial condition of Morgan Joseph & Co. Inc. (the "Company"), a wholly-owned subsidiary of Morgan Joseph Holdings Inc. as of December 31, 2007, that you are filing pursuant to Rule 17a-5 under the Securities Exchange Act of 1934. This financial statement is the responsibility of the Company's management. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the statement of financial condition presents fairly, in all material respects, the financial position of Morgan Joseph & Co. Inc. as of December 31, 2007, in conformity with accounting principles generally accepted in the United States of America.

*Eisner LLP*

New York, New York  
February 26, 2008

**MORGAN JOSEPH & CO. INC.**

(a wholly owned subsidiary of Morgan Joseph Holdings Inc.)

**Statement of Financial Condition****December 31, 2007****ASSETS**

Cash and cash equivalents	\$ 25,751,709
Due from broker	8,121,772
Investments, at fair value	5,098,450
Accounts receivable	5,914,318
Deferred tax asset	1,623,070
Prepaid expenses and other assets	<u>572,925</u>
	<b><u>\$ 47,082,244</u></b>

**LIABILITIES**

Compensation payable	\$ 21,251,450
Deferred rent	1,542,648
Payable to Parent	422,049
Accounts payable and other accrued expenses	<u>2,792,448</u>
	<b><u>26,008,595</u></b>

**STOCKHOLDER'S EQUITY**

Common stock, \$1.00 par value; 1,000 shares authorized; 100 shares issued and outstanding	100
Paid-in capital	8,316,084
Retained earnings	<u>12,757,465</u>
	<b><u>21,073,649</u></b>
	<b><u>\$ 47,082,244</u></b>

## **MORGAN JOSEPH & CO. INC.**

(a wholly owned subsidiary of Morgan Joseph Holdings Inc.)

### **Notes to Statement of Financial Condition**

**December 31, 2007**

#### **NOTE A - ORGANIZATION AND BUSINESS**

Morgan Joseph & Co. Inc. (the "Company"), a wholly owned subsidiary of Morgan Joseph Holdings Inc. (the "Parent"), is a broker-dealer registered with the Securities and Exchange Commission (the "SEC") and a member of the Financial Industry Regulatory Authority, Inc. ("FINRA"), formally known as the National Association of Securities Dealers, Inc. The Company provides investment banking services and financial advisory and capital raising services, principally related to M&A and restructuring advice, private placements and public offerings of debt and equity. The Company does not carry securities accounts for customers or perform custodial functions relating to customer securities and, accordingly, is exempt, pursuant to paragraph (k)(2)(ii), SEC Rule 15c3-3. All securities transactions are cleared through clearing brokers pursuant to a clearance agreement or a customer agreement.

#### **NOTE B - SIGNIFICANT ACCOUNTING POLICIES**

##### **[1] Cash and cash equivalents:**

Cash and cash equivalents consist of cash and money market funds held at major financial institutions.

##### **[2] Revenue recognition:**

Investment banking fees are recorded when the underlying transaction is consummated. Nonrefundable retainer fees are recognized after the related services are performed or rendered. Commission income, purchases and sales of securities and related expenses are recorded in the financial statements on a trade-date basis.

##### **[3] Securities transactions and valuation:**

Securities owned are valued at quoted market price. Securities owned for which exchange quotations are not readily available are valued using estimated fair values as determined by management in good faith using consistently applied methods and procedures established by management. The resulting unrealized gains and losses are reflected in the statement of operations. Because of the inherent uncertainty of valuation, the estimated values may differ significantly from the values that would have been used had a ready market for investments existed, and the differences could be material.

##### **[4] Income taxes:**

The Company's results from operations will be included in the Parent's federal, state and local tax returns, which are filed on a consolidated basis. It is the Parent's policy to allocate a provision for taxes to the Company based on the tax that would have been determined on a separate tax return basis. The Company's current tax provision of \$6,136,000 for 2007 was recorded in Payable to Parent.

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and for net operating loss carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be settled or recovered. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized.

**MORGAN JOSEPH & CO. INC.**

(a wholly owned subsidiary of Morgan Joseph Holdings Inc.)

**Notes to Statement of Financial Condition  
December 31, 2007**

**NOTE B - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**[5] Use of estimates:**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**[6] New accounting pronouncements:**

In September 2006, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 157 "Fair Value Measurements" ("FAS 157"). FAS 157 requires use of a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three levels: quoted market prices in active markets for identical assets and liabilities (Level 1), inputs other than quoted market prices that are observable for the asset or liability, either directly or indirectly (Level 2), and unobservable inputs for the asset or liability (Level 3). FAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and the Company does not believe that the adoption will have a material effect on its financial statements.

In June 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109" ("FIN 48"), which clarifies the accounting and disclosure for uncertainty in tax positions, as defined. FIN 48 seeks to reduce the diversity in practice associated with certain aspects of the recognition and measurement related to accounting for income taxes. This interpretation will apply to the Company on January 1, 2009. The Company is currently evaluating the impact, if any, on its financial statements.

**NOTE C - INCOME TAXES**

The significant components of the Company's deferred tax asset, as of December 31, 2007, are as follows:

Deferred tax asset:	
NOL carryforward	\$ 39,136
Deferred rent payable	296,823
Unrealized gain on investments	202,546
Compensation payable	<u>1,084,565</u>
Deferred tax asset	<u>\$ 1,623,070</u>

During the year ended December 31, 2007, the Company utilized approximately \$8,000 of their tax net operating loss carryforwards. As of December 31, 2007, the Company has tax net operating loss carryforwards of approximately \$87,000 which will expire in 2021 and are subject to an annual limitation in accordance with Section 382 of the Internal Revenue Code.

**MORGAN JOSEPH & CO. INC.**

(a wholly owned subsidiary of Morgan Joseph Holdings Inc.)

**Notes to Statement of Financial Condition  
December 31, 2007**

**NOTE D - RELATED PARTY TRANSACTIONS**

The Parent has entered into noncancelable leases for office space expiring on various dates through 2016. The Company occupies all of the leased space and pays all of the lease cost and expects to occupy this space for the full term of the leases. The lease agreements are subject to periodic escalation provisions for increases in real estate taxes and other charges. The minimum rental commitments under the lease of the Parent are set forth below:

<u>Year Ending December 31,</u>	
2008	\$ 1,904,000
2009	1,923,000
2010	1,956,000
2011	1,911,000
2012	1,172,000
Thereafter	<u>2,980,000</u>
	<u>\$ 11,846,000</u>

The leases provide for free rent periods and rent increases over the lease terms. Since the Company records rent expenses on a straight-line basis, the difference between expenses and actual payments is recorded as deferred rent.

**NOTE E - NET CAPITAL REQUIREMENT**

The Company is subject to the SEC Uniform Net Capital Rule 15c3-1 which requires the maintenance of minimum net capital, as defined. At December 31, 2007, the Company, under the alternative standard method, had net capital of approximately \$23,565,000 or \$23,315,000 in excess of its required net capital of \$250,000 or 2% of Rule 15c3-3 reserve formula debits.

In 2007, the Company entered into two separate Temporary Subordinated Loan Agreements with Southwest Securities, Inc. for \$10 million and \$15 million. Both loans were drawn down and repaid respectively during 2007.

**END**